NATIONAL DAIRY
Products
Corporation

Annual
Report
1967

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CORPORATION FILE

SPICE CABINET
GINGER
CLOVES

New products in 1967 for breakfast, lunch and dinner. Breakfast could consist of Kraft Pure Orange-Grapefruit Juice, toast spread with Diet Parkay Margarine, an omelet stuffed with Kraft Whipped Cream Cheese with Salami, a glass of Sealtest Light n' Lively low-fat milk, and a cup of Manor House brand coffee, acquired by National Dairy during the year.

For lunch: sandwiches with Kraft Individually-Wrapped Natural Brick Cheese Slices, a milk shake made with Sugar Creek's Maple Leaf Brand Old Fashioned Freezer and Shake Mix, celery stuffed with Kraft Pimiento Sandwich Spread, and cookies with Kraft's Pure Apple Strawberry Jelly and Pure Apple Black Raspberry Jelly.

FRONT COVER
The products of farm and sea illustrated on the cover are representative of the more than $1^1/_3$ billion worth of raw materials purchased in 1967 by National Dairy for its thousands of products.

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Report
1967

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A buffet could include a salad topped with Kraft's Green Goddess Dressing, Kraft Sweet 'n Sour Sauce and Dressing over chicken, Kraft Pourable Tarter Sauce with fish cakes, Kraft's Onion Teez Dip, Sealtest ready-to-serve Egg Custard Pudding mixed with Kraft Fresh Chilled Peach Slices, Kraft Pink Peppermint Pie, and three varieties of Sealtest ice cream: Rainbow, Tiger Twirl and Vanilla Black Raspberry Royale.

FINANCIAL HIGHLIGHTS

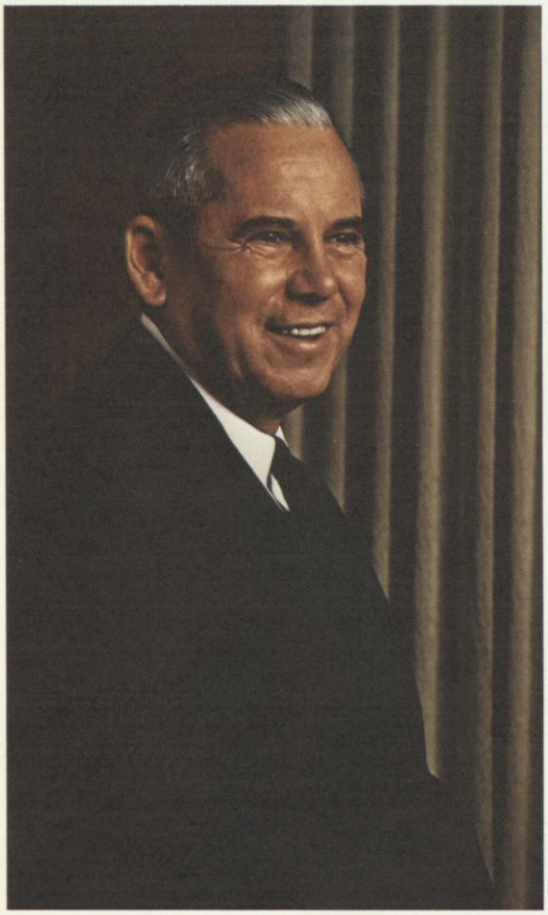
	1967	1966
Sales	**$2,318,587,000**	$2,251,725,000
Earnings	**$ 76,120,000**	$ 73,461,000
Per Share	**$2.65**	$2.55
Per Dollar of Sales	**3.28%**	3.26%
Federal and Foreign Taxes on Income	**$ 64,830,000**	$ 62,015,000
Per Share	**$2.25**	$2.15
Dividends to Stockholders	**$ 41,641,000**	$ 40,413,000
Per Share	**$1.45**	$1.40
Capital Expenditures	**$ 51,600,000**	$ 42,481,000
Depreciation	**$ 39,980,000**	$ 38,481,000
Working Capital	**$ 345,552,000**	$ 325,604,000
Stockholders' Equity	**$ 622,280,000**	$ 592,680,000
Number of Stockholders	**72,352**	71,240

Fiscal 1967 was for a period of 52 weeks; 1966 for 53 weeks.
Financial Review and Statements begin on page 16.

ANNUAL MEETING

Stockholders of National Dairy Products Corporation are cordially invited to our Annual Meeting which will take place on Thursday, April 18, 1968, at 11 a.m. at the Hotel Commodore, Lexington Avenue and 42nd Street, New York City, N. Y.

It has been said that success depends upon the management of change. We have continued to produce good results by keeping pace with changing needs and demands in the marketplace.



GORDON EDWARDS

CHAIRMAN'S REPORT TO STOCKHOLDERS

The 1967 Annual Report is a welcome opportunity to tell you about our results for the year, and to call your attention to some of the many factors that have contributed to our record of growth.

The year 1967 was a good one by any measure. Record volumes in major product lines were sold throughout the world. Our sales of $2,318,587,000 were an all-time high, $66,863,000, or 3.0%, above 1966. Under our method of accounting, an extra accounting week occurs every seventh year. That happened in 1966, and when allowance is made for that extra week, 1967 sales were approximately 4.7% above those of the previous year.

Before-tax earnings in 1967 were $140,950,000, up from $135,476,000 in 1966. After-tax earnings were $76,120,000 in 1967, compared with $73,461,000 the year before. Per share earnings increased 10¢ in 1967 to $2.65, and the quarterly dividend rate was increased to 37½¢ in the third quarter making a total for 1967 of $1.45 per share compared to $1.40 in 1966.

Our achievements in 1967 reflected the cumulative results of 44 years of effort. During that time we have built an extensive, world-wide marketing organization, perhaps without parallel in the food industry. Our products are processed in 16 countries of the world and reach consumers in over 100 nations. We have earned the confidence and respect of consumers with products that consistently deliver high quality and good value. And we have established an enviable record of product innovation which has enabled us to meet the changing needs and demands of consumers and of institutional and industrial customers.

The same spirit of innovation and vigorous competition that has spurred our growth in the past was at work during 1967 and will lead to still greater growth in the future. In the following pages you will read about a few of the new products introduced last year to take their place among the thousands which have come before; you will read about capital investments and developments which will play their part in future growth; and you will read about our people, without whom our achievements would have been impossible.

I want to take this opportunity to congratulate and express our appreciation to the thousands of employees around the world for this accomplishment; and to thank our Board of Directors who have contributed so much to the guidance of this Company, and our customers and stockholders for their confidence and support.

As we look ahead we think we have a great opportunity for continued growth and success.

February 23, 1968

Gordon Edwards
Chairman of the Board

Sealtest ICE CREAM
VANILLA
FUDGE ROYALE
CHOCOLATE
BUTTER PECAN
Double Fudge
Double Fudge
Miracle Whip
KRAFT
4511
12 QUARTS
SALAD DRESSING
MIRACLE WHIP
GLASS HANDLE WITH CARE

Management Changes, Acquisitions and Product Innovations Highlight 1967 Operations

Top Management Changes

On January 4, 1968, the Board of Directors voted changes in the Company's top management structure. Gordon Edwards, who became President of the Corporation in 1965, was elected to the position of Chairman of the Board. He remains Chief Executive Officer. The Board elected William O. Beers President of the Corporation and Chairman of the Operating Committee. Mr. Beers had been a Vice President of the Corporation and President of the Kraft Foods Division. The Board at the same meeting elected O. Everett Swain a Vice President of the Corporation and he was appointed President of the Kraft Foods Division, succeeding Mr. Beers. Mr. Swain, who had been President of Kraft Foods Ltd., Canada, was also elected to the Board of Directors.

Acquisitions

Our operations in Canada were expanded with the purchase of Purity Dairies Ltd., in Windsor, Ontario, a major supplier of dairy products in Essex and Kent counties. Purity will operate as part of Dominion Dairies Ltd., and will provide expanded distribution for Sealtest products in Western Ontario.

National Dairy entered a new field with the acquisition of W. F. McLaughlin and Company, a Chicago-based regional coffee company. McLaughlin, which makes and distributes Manor House brand coffee in four midwestern states, has become part of the Kraft Foods Division's operations.

National Dairy entered the rapidly growing Spanish market in January, 1968 with the acquisition of a major interest in Industrias Lacteas Leonesas, S. A., a dairy company headquartered in Leon, Spain. Leonesas, which processes and distributes manufactured milk products and butter, will soon begin to manufacture many of the items in Kraft's extensive line of products. These items will be marketed in Spain and exported to other European countries.

Product Innovations

National Dairy markets over 4,000 items, and the list is growing as new products are introduced to meet changing needs and demands in the marketplace. The following pages include references to some of the consumer, institutional and industrial products introduced in 1967.

THE PEOPLE OF NATIONAL DAIRY
Who are our people? They are individuals, some of whom are represented here, whose work is carried out in almost a dozen different languages. Individuals in many different countries . . . countries so geographically separated that at any given time the sun is shining on some of them. Individuals who number over 47,000.

National Dairy is the product of the skills and attitudes of its people. Attitudes which manifest an extra margin of will, desire and initiative combined with skills at all levels in the Company have made the difference between being good and being excellent. Our people, by being very good at what they do, by being unwilling to leave well enough alone, have built the Corporation into the leader in its field.

SPAR
SPAR
88
U 68
Verkehrsumleitung
bitte einordnen
Bad Nauheim 50 km
275
Walsdorf 8 km
Kriegsgräberstätte
Umleitung für Pkw
Esch
KRAFT

CONSUMER SERVICES

Innovation is as important to business as high-energy foods to a growing child. It provides business with day-to-day vitality; it spurs the development of new and better products, new technology, better ways of doing business. It is the foundation of future profits and growth.

During 1967, consumer acceptance of our products throughout the world was stronger than ever, and record volumes of products were sold. Many new consumer products were introduced; new facilities were opened and existing ones expanded during the year to provide additional growth in the future.

The Company's Kraft Foods Division introduced over 70 new consumer products into national, regional or test market distribution in the U. S. in 1967. The last group includes 12 frozen foods, 2 potato salads, 4 mixed fruit jellies, 4 Dressing 'N Dip mixes and Kraft dog food. In addition, Kraft established national distribution with such products as soft Diet Parkay margarine, 9 sauce and gravy mixes, unsweetened grapefruit sections and unsweetened grapefruit juice.

Kraft has expanded distribution of 4-square Parkay margarine throughout Canada, and has introduced pure orange, pure grapefruit, and pure orange-pineapple juices into the important Ontario and Quebec markets.

In England, Kraft introduced into regional or national distribution 11 consumer products during the year, including Thousand Island dressing, Miracle Whip salad dressing and six varieties of cheese spreads. In Germany, Kraft brought out 18 new and improved consumer products, among them onion and curry-flavored process cheeses, sachertorte and hazelnut cake mixes and five varieties of instant dessert. Kraft introduced vanilla, caramel and wine-flavored spreads called "cajeta" throughout Mexico, and began marketing Parkay margarine in Mexico City and the Guadalajara and Monterrey Provinces. Kraft Australia placed eight new and improved products in test markets, and began national distribution of corned beef hash, club cheese, and tuna noodle dinner.

To meet growing demand for low-fat products, Sealtest introduced Light n' Lively milk, which has 1% butter fat but the texture and taste of whole milk. Sealtest placed in test market frozen milk concentrate which when reconstituted is indistinguishable in taste from whole fresh milk and just as nutritious. A special processing method developed by our Research and Development Division has been extended to Sealtest refrigerated, ready-to-eat puddings, which are in test market. This process doubles the shelf life of the puddings, thus providing significant improvement in the handling and distribution of these products.

Breakstone Foods and Sugar Creek Foods continued to progress in their programs of market expansion.

Throughout the year, our world-wide marketing efforts received strong support from imaginative, service-oriented advertising and merchandising. Sealtest completed tests of new color TV commercials which will be shown on a total of 129 stations in all its markets in 1968. Breakstone Foods promoted its products through color TV spot commercials, and radio, newspaper and poster advertisements. In North America, with the Kraft Music Hall, the Company, for

A Kraft truck making deliveries in a German town. National Dairy has manufacturing facilities in 16 countries of the world and its high-quality products are distributed in more than 100 countries.

the 21st consecutive year, brought "good food ideas" to millions of consumers through the medium of television. The Company also promoted sales of products through top national magazines and award-winning in-store promotion programs.

Television and magazine advertising plays an important role in markets outside the U. S. as well, and consumer service is the aim of frequent advertising messages in all markets, whether the language is Spanish, German, Italian or English. These messages are supplemented by vigorous merchandising programs. One such program last year was an international cheese festival, sponsored by Kraft, in which over 60,000 food stores in the West German Republic took part. The festival featured cheeses from Germany, Denmark, Holland, and Switzerland. These advertising and merchandising programs help make consumers throughout the world aware of the fine products made available by National Dairy.

Our hundreds of institutional products have been designed to meet the special demands of mass-feeding institutions ranging from hospitals, cafeterias and schools to industrial

INSTITUTIONAL SERVICES

To further strengthen our leading position in the food service industry, many new institutional products were introduced in 1967. Kraft expanded its canned product line with mandarin oranges, Maine blueberries, kidney beans and small white potatoes. Chocolate, vanilla and strawberry milk shake bases were introduced for use in restaurants and snack bars.

Kraft placed 10 frozen foods in test market during the year. These were chicken, ham and tuna sandwich fillings; tuna, chicken and kidney bean salads; chicken chow mein, vegetable chow mein, stuffed green peppers and breaded onion rings. All these frozen foods are being tested in Philadelphia, Atlanta, Indianapolis, Kansas City, Oklahoma City, Los Angeles, St. Louis, and New Orleans. Our institutional frozen food line now numbers 62 products. Other new institutional products include chicken soup and beef soup bases for use in vending machines.

Kraft expanded its institutional line in Canada with the addition of fountain syrups and toppings, consomme and gravy bases, whole tomatoes, chili mix with beans, sweet black cherries and green maraschino cherries.

In England, Kraft brought out seven new institutional products, including tomato ketchup, tomato puree, continental blend instant coffee, and Welsh rarebit.

Sugar Creek began marketing a powdered frozen dessert mix; and introduced an all-purpose margarine, blending vegetable oil and butter, developed for the preparation of quality foods in restaurants.

Supporting our intensive sales efforts, institutional products were advertised and promoted through media directed to special institutional markets.

plants and restaurants. Innovation of new and better service-oriented products and vigorous marketing efforts have made National Dairy a leader in the growing food service industry.

INDUSTRIAL SERVICES

> The success of National Dairy's products stems from a tradition of innovation . . . a tradition supported by the ingenuity and efforts of our thousands of employees throughout the world.

Sales of our industrial products increased significantly during 1967 and were accompanied by continued programs of product innovation.

The Company holds an important position in the industrial market and improved its position with increased volume during 1967. Kraft's many industrial products include cheese powders for such items as cheese popcorn and many other snacks; whey, a by-product of cheese, which is refined for use by bakers, and in an unrefined state is used by manufacturers of animal feeds; and emulsifiers and stabilizers which are used in dairy products and by the pharmaceutical industry.

Kraft introduced four new products in England during 1967: Puffte pastry margarine, and three animal feed products—Lactic Creep Pellets and two dairy concentrates. All of these products are in national distribution. Kraft's chemical plant in Manchester, England was brought into full production during the year and is turning out a variety of fatty-acid chemical products for industry.

Metro Glass Division strengthened its position in the non-returnable soft drink bottle market, with shipments up substantially over last year. Sugar Creek Foods Division added two new products to its extensive line of milk powders. The first, Baker's Blend, is a special blend particularly suited to the needs of quality bakers. The second is a new, improved blend of milk solids especially suited to the manufacture of high quality ice cream.

Humko Products Division's four plants at Champaign, Illinois; Memphis, Tennessee; and Los Angeles, California operated at near capacity all year. Stress was placed on sales of specialty items such as Liqui-Cake-Mix, a complete line of hard butters for the confectionery industry, and Puff Pastry and Danish Roll-in shortenings for the bakery industry. Several new fatty chemicals were developed by HumKo, as were new uses for many existing products. One new addition was Hystrene 9022-75, a very high purity long chain fatty acid used as a processing aid in manufacturing plastic foam. Some of the new uses for existing products were Kemamine P-190 as an anti-rust and anti-corrosion agent, and Kemamine D-190 as an additive in wax used in the manufacture of particle board.

The manufacture of our many food and non-food industrial products . . . those used by other manufacturers as ingredients in their products . . . requires a combination of engineering excellence and technical skill, exemplified by this employee at our HumKo Division's chemical plant in Memphis.

RESEARCH AND DEVELOPMENT

The Research and Development Division is the central research facility for all operations, both domestic and international. As such, a large part of this Division's day-to-day activities are devoted to the development of product standards and product innovations for the operating divisions. In the preceding pages of this report are many examples of the spirit of innovation that is the heart of Research and Development's day-to-day operations. But in research there is no yesterday–only the tomorrows that lie ahead.

When National Dairy was founded, it would have been impossible to predict accurately the advanced processing techniques and engineering abilities, many of them developed by our people, which make possible the products we now produce. Similarly, no one can accurately predict the food technology and products of the future. But advances are being made so rapidly that it is possible to outline some probable future developments.

One very likely development could be the large-scale introduction of non-animal protein foods taken from such sources as cotton seeds, soybeans and yeast. Another might be the production of protein-rich yeast by the fermentation of petroleum derivatives. When this method of production is perfected, it will open up a vast new source of protein materials for animal or human consumption.

These new sources of raw food materials will be accompanied by startling new developments in food processing. One such development will be the ability to "engineer" foods . . . actually construct them from their basic nutritive components. Some engineered foods which are acceptable in terms of texture and flavor are already available to consumers. When these technologies are further developed, we will be able to engineer foods of uniform high quality which have the excellent taste, aroma and appearance of the best foods available today, and which will be economical to produce. And, an added advantage of engineered foods will be the ability to custom tailor their nutritive components to the special dietary needs of various groups of consumers.

Another potentially important area under development is modified dairy products. One step in this direction is filled milk . . . a combination of skim milk and vegetable oil . . . which we have in test market under the Sealtest Value 3 brand. Going further in this direction, a great deal of research is being devoted to the development of vegetable-fat counterparts of all our dairy products.

The thinking going into these future possibilities is not merely theoretical. As National Dairy continues, through imaginative innovations, to develop new products for the immediate future, we intend also, through continued long-range research and development activities, to remain a leader in pushing back the frontiers of food technology for the benefit of people everywhere.

> An idea is not, in itself, an achievement. The achievement comes in translating the idea, through effort and hard work, into useable form. The translation of an idea into a practical reality is the root of innovation.

People such as this research scientist at our Glenview, Illinois Research and Development Division have been the driving force behind National Dairy's history of innovation.

NATIONAL DAIRY PRODUCTS

Around The World...

Representative Product Categories

●	Processed Cheese Slices
■	Natural Cheese
◆	Cream Cheese
▼	Processed Packaged Cheese
●	Cottage Cheese and Dairy Specialties
■	Spreads
◆	Confections
▼	Sauces and Gravies
●	Salad Products
■	Dinner Products
◆	Margarines and Butter
▼	Animal Feeds
●	Citrus Products
■	Milk and Frozen Desserts
◆	Chemicals and Glass Containers
▼	Institutional Products

NATIONAL DAIRY AROUND THE WORLD
Shown on the gatefold covers are representatives of some of National Dairy's broad range of product categories. This map shows the different locations around the world at which these products are manufactured for local consumption and, in most cases, for export.

PARKAY
Breakstone WHIPPED BUTTER
Soft PARKAY
Soft DIET PARKAY
Superfine MARGARINE

MARGARINES AND BUTTER

KRAFT
Goulasch und Spätzle
Macaroni & Cheese DINNER
Miracoli
Spaghetti with Meat Sauce
PIZZA

DINNER PRODUCTS

SAUCES AND GRAVIES

KRAFT
Barbecue Sauce
hollandaise sauce
brown gravy
spaghetti sauce
sour cream sauce mix

CONFECTIONS

Coconut Brittle
Marshmallow Creme
Marshmallows
Bridge Mix
Peanuts
Miniature Marshmallows
Caramels

Pex
Kaff-A
MILK REPLACER FOR CALVES
KRAFT

ANIMAL FEEDS

BUTTER CRUNCH
Sealtest
MILK
VALUE
Light n' Lively
ICE CREAM BARS
CHOCO-NUT
MILK CONCENTRATE

MILK AND FROZEN DESSERTS

PROCESSED CHEESE SLICES

KRAFT
Each Slice Wrapped
16 AMERICAN SINGLES
Scheibletten
AMERICAN SLICES
Sottilette
Tranchettes
DAIRYLEA
AMERICAN ROUNDS
8 Round Slices

SALAD PRODUCTS

Miracle Whip
Catalina
KRAFT FRENCH DRESSING
Mayonnaise
Mayonesa

Breakstone
SOUR CREAM
Breakstone
COTTAGE CHEESE
KRAFT
Grated Parmesan Cheese
COTTAGE CHEESE
PIMENTO SPREAD
CLAM dip
Breakstone
YOGURT
DIP'N DRESSING
Breakstone
YOGURT

COTTAGE CHEESE
AND
DAIRY SPECIALTIES

NEUSTREX
HYSTRENE
NEUSTRENE
KEMAMINE
KEMESTER

CHEMICALS
AND
GLASS CONTAINERS

NATURAL
CHEESE

NATIONAL DAIRY PRODUCTS
Around The World...

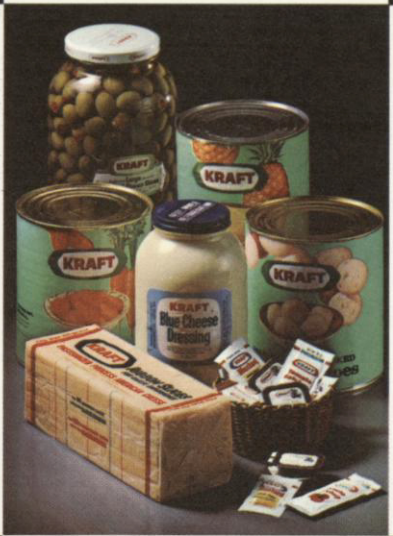
KÄSESCHEIBEN
KRAFT
Tilsiter
KRAFT
NATURAL SWISS CHEESE
KRAFT
MOZZARELLA
P'TIT QUÉBEC
Cracker Barrel Cheese
Cracker Barrel Cheese
KRAFT
Emmentaler

CITRUS
PRODUCTS

KRAFT
ORANGE JUICE
KRAFT
GRAPEFRUIT JUICE
KRAFT
FRESH CHILLED FRUIT SALAD
KRAFT
FRESH CHILLED GRAPEFRUIT UNSWEETENED

KRAFT
PEANUT BUTTER
KRAFT
Sandwich Spread
KRAFT
CAJETA envinada
KRAFT
PEANUT BUTTER
Grape
Strawberry
KRAFT
GRAPE JELLY
KRAFT
PEANUT BUTTER
VEGEMITE

SPREADS


KRAFT
KRAFT
KRAFT
KRAFT
Blue Cheese Dressing
KRAFT

INSTITUTIONAL
PRODUCTS

PROCESSED
PACKAGED
CHEESE

KRAFT
Cheestik
Cheez Whiz
VELVEETA
VELVEETA
Canadian
Canadian
RAMEK
KRAFT
Rahmeck
Old English
Old English

CREAM
CHEESE

KRAFT
Whipped Cream Cheese
ONION
Breakstone
FARMER
PHILADELPHIA
PHILADELPHIA CREAM CHEESE
Calorie Wise
NEUFCHATEL CHEESE
PHILADELPHIA

1967 FINANCIAL AND LEGAL REVIEW

Sales

Volume of products sold throughout the free world during 1967 reached new highs and produced record dollar sales of $2,318,587,000. This is an increase of $66,863,000, or 3.0%, over 1966 sales. However, under the Company's method of accounting, an extra accounting week is included in every seventh year. This occurred in 1966, and when 1966 sales are adjusted to exclude the extra week, 1967 sales are approximately 4.7% higher. Sales outside the United States and Canada, which are included in the total, were also at a record level of $236,512,000, an increase of $7,007,000, or 3.1%, over 1966.

Manufactured dairy products represented 38.4% of sales in 1967; this category includes products such as processed and natural cheeses, butter, cottage cheese, cream cheese, yogurt, and sour cream, together with powdered whey and other by-products derived from milk. Processed food products represented 32.5% of 1967 sales. Included in the processed foods category are such products as mayonnaise, salad dressings and salad oils, margarines, jams and jellies, confections, prepared dinners and citrus products. Fluid milk products, which consist principally of milk, cream, skim milk, chocolate milk, buttermilk and fortified low-fat milk, accounted for 19.7% of sales. Ice cream and other frozen desserts, including sherbets and ice milk, contributed 7.3% to sales. Other products such as glass containers, chemicals, animal feeds, and miscellaneous products represented 2.1% of sales. The percentage to net sales of each of these five classes of product over the past ten years is shown in the accompanying table.

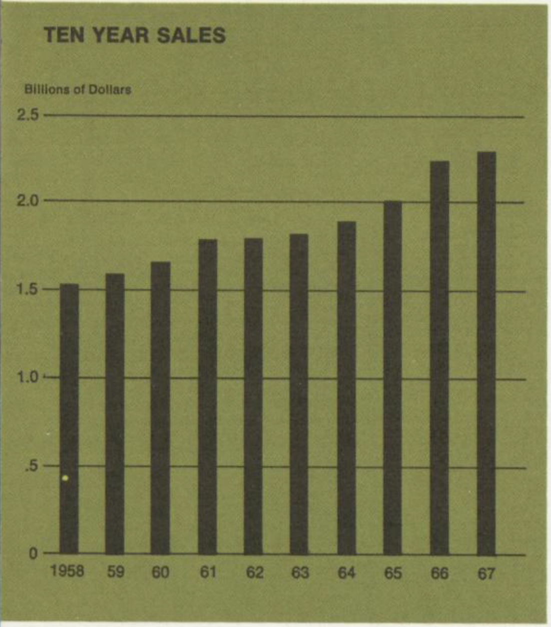
Earnings and Dividends

Record consolidated net earnings for 1967 of $76,120,000 were 3.6% higher than earnings of $73,461,000 in 1966. Earnings per share of common stock increased to $2.65 from last year's $2.55. Consolidated earnings before taxes on income were $140,950,000 in 1967, compared with $135,476,000 the previous year. The contribution to consolidated earnings made by our subsidiaries outside the United States and Canada was $10,650,000 after taxes on income, an increase of 37.9%, and $17,014,000 before taxes on income.

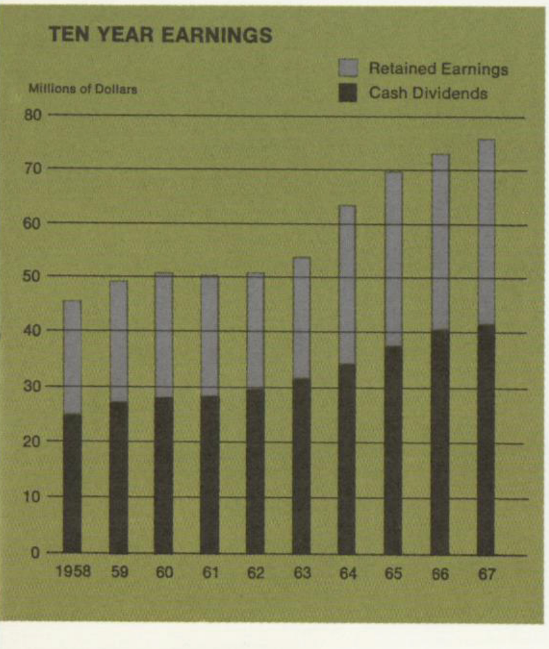
TEN YEAR SALES BY CLASS OF PRODUCTS

as a percent of total net sales

	Manufactured Dairy Products	Processed Food Products	Fluid Milk Products	Ice Cream & Frozen Desserts	Other Products
1967	38.4%	32.5%	19.7%	7.3%	2.1%
1966	38.4	32.2	19.6	7.7	2.1
1965	37.4	31.9	20.0	8.5	2.2
1964	37.1	30.8	21.1	8.9	2.1
1963	36.7	29.9	22.1	9.3	2.0
1962	36.7	29.5	22.6	9.2	2.0
1961	36.9	28.2	23.1	9.8	2.0
1960	37.4	25.8	24.3	10.5	2.0
1959	36.1	25.3	25.6	11.0	2.0
1958	35.6	25.5	26.5	10.6	1.8



Yesterday's efforts produce today's results. To assume that they will also produce tomorrow's results would be to give up our position of leadership. We make no such assumptions.



During 1967, earnings benefited from the continued increase in volume of products sold, improved operating efficiencies and more favorable cost/price relationships in the latter months of the year. The cost of products, which includes raw materials, containers, packages and processing expense, was 76.5% of sales in 1967 compared to 76.2% in 1966. Delivery, selling and administrative expenses were 17.5% of sales in 1967 compared to 17.9% in 1966. This included advertising expense which was 2.7% of sales compared to 2.9% in 1966. Total taxes on earnings, real estate, equipment, inventories and payrolls were $92,425,000, or $3.21 per share.

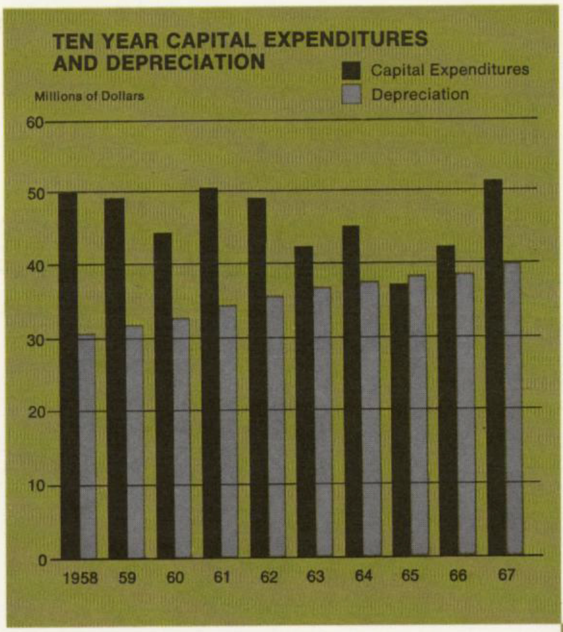
The Company's investment tax credit in 1967 amounted to approximately $1,462,000, or 5.1¢ per share, compared with approximately $1,836,000, or 6.4¢ per share in 1966. The decline resulted from the suspension in the latter part of 1966 of the tax credit which was not reinstated until March 9, 1967.

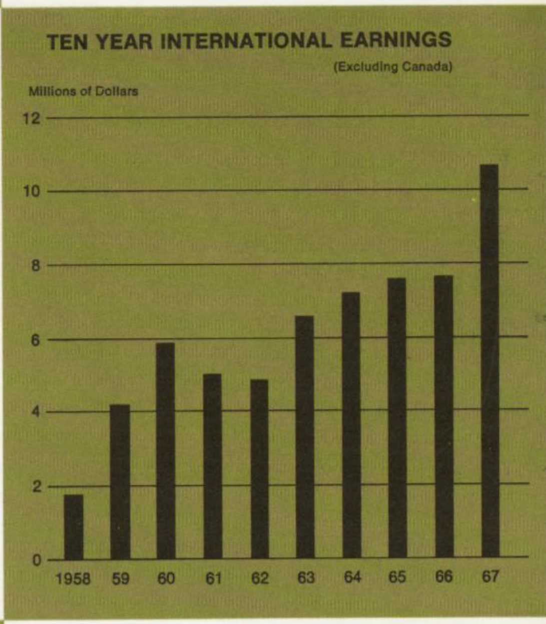
Dividends to stockholders were increased in 1967, beginning with the third quarter. Total cash dividends paid to stockholders in 1967 totaled $41,641,000, an increase of $1,228,000 over 1966. At year end, there were 28,671,621 shares outstanding, held by 72,352 stockholders. This does not include shares held in the treasury of the Company.

During 1967 the Company purchased 197,800 shares of its common stock under the program to accumulate treasury stock for general corporate purposes. As of December 30, 1967 the Company held 547,469 shares. The Board of Directors has authorized the purchase during 1968 of up to 575,900 additional shares.

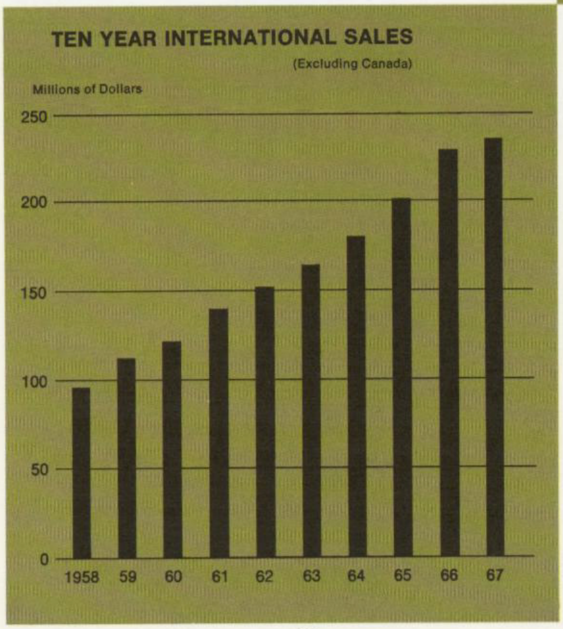
Capital Expenditures

Expenditures for new equipment and expanded production and distribution facilities during the year totaled $51,600,000. Kraft Foods distribution centers in New Orleans and St. Louis were completed, as were an addition to our frozen meat facilities in England, an evaporating plant and extensions of several bulk cheese plants in Australia, and a new office building and natural cheese packaging


TEN YEAR CAPITAL EXPENDITURES AND DEPRECIATION


TEN YEAR INTERNATIONAL EARNINGS

(Excluding Canada)


TEN YEAR INTERNATIONAL SALES

(Excluding Canada)

and storage facilities in Germany. Metro Glass Division modernized equipment and completed a new warehouse at its Dolton, Illinois plant. HumKo Products Division completed a major expansion of its Memphis chemical plant. It is estimated that capital expenditures in 1968 will amount to a record $62 million and this will be directed toward improved operating efficiencies and added capacity necessary to serve our growing markets. Depreciation charges in 1967 were $39,980,000. Estimated depreciation charges in 1968 will be approximately $42,000,000.

Litigation

The 1965 antitrust case brought by the Department of Justice charging conspiracy to fix prices in the sale of milk in Miami and South Florida, in which the Company and nine other dairy concerns are among the defendants, is awaiting trial. The appeal of the 1959 antitrust case in Kansas City to the Court of Appeals, following a remand from the United States Supreme Court and reaffirmance of the conviction of the Company by the District Court, resulted in an affirmation of the conviction on ten counts and a reversal and remand for a new trial on three. The related treble damage suits remain pending.

In the 1962 Federal Trade Commission proceeding, the Commission has decided in the Company's favor on the charges of price discrimination in the sale of marshmallow topping and yogurt but against the Company in the sale of jelly. That decision and order as to jelly are now on appeal to the United States Court of Appeals. The appeal to the United States Court of Appeals from the Commission's adverse decision in the 1957 proceeding alleging price discrimination in the sale of milk and ice cream is still pending.

In December, 1967, indictments were issued by a New York County Grand Jury against substantially the entire New York City milk industry, among other things charging conspiracy to fix milk prices and allocate milk business. The Company and the President of its Sealtest Foods Division were included as defendants; the charges against both will be vigorously defended.

The Company is a party to other litigation of various kinds and governmental investigations are pending in several areas. See also the comment on Contingent Liabilities in the Notes to Consolidated Financial Statements on page 23.

Success for National Dairy is not a goal to be reached, but a journey without a final destination, with its rewards found in the manner of traveling.

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 30, 1967	December 31, 1966
Current Assets:		
Cash	**$ 16,169,054**	$ 18,838,195
Marketable securities at cost, not in excess of market	**68,532,496**	50,628,025
Notes and accounts receivable	**140,469,260**	134,829,698
Inventories, at lower of average cost or market—		
Products and materials	**286,729,901**	289,689,835
Supplies	**24,100,598**	21,141,797
Total Current Assets	**$536,001,309**	$515,127,550
Property, Plant & Equipment, at cost:		
Land	**$ 20,245,212**	$ 20,681,771
Buildings	**237,362,307**	229,419,400
Machinery and equipment	**432,313,141**	415,483,888
	$689,920,660	$665,585,059
Less—Accumulated depreciation	**346,271,133**	331,237,978
	$343,649,527	$334,347,081
Other Assets:		
Miscellaneous investments and receivables	**$ 9,340,432**	$ 9,864,688
Prepaid and deferred items	**4,567,522**	4,591,243
Intangibles (See note)	**21,785,697**	20,587,404
	$ 35,693,651	$ 35,043,335
	$915,344,487	$884,517,966

(See Notes to Consolidated Financial Statements, pages 23 and 24.)

NATIONAL DAIRY PRODUCTS CORPORATION... AND SUBSIDIARIES

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 30, 1967	December 31, 1966
Current Liabilities:		
Accounts payable and accrued liabilities	**$148,782,110**	$146,530,980
Short-term loans of International Subsidiaries	**15,287,557**	8,486,877
Provision for Federal and foreign taxes on income	**25,402,218**	34,225,971
Current portion of long-term debt, less amounts provided for payment ($3,612,708 in 1967 and $3,712,000 in 1966)	**977,020**	280,000
Total Current Liabilities	**$190,448,905**	$189,523,828
Long-Term Debt (See note)	**$ 85,144,703**	$ 87,732,021
Other:		
Deferred taxes on income	**$ 11,698,865**	$ 9,075,882
Reserves for insurance, etc.	**4,479,375**	4,359,491
Minority interest in subsidiary	**1,292,788**	1,146,839
	$ 17,471,028	$ 14,582,212
Contingent Liabilities (See note)		
Stockholders' Equity:		
Common stock, $2.50 par value—authorized 40,000,000 shares; issued 29,219,090 shares at December 30, 1967 and 29,181,232 shares at December 31, 1966 (See note)	**$ 73,047,725**	$ 72,953,080
Capital surplus (See note)	**44,336,758**	43,421,774
Retained earnings (at December 30, 1967, $77,300,000 restricted as to payment of dividends under indentures)	**526,519,802**	492,040,151
	$643,904,285	$608,415,005
Less—Treasury stock at cost—547,469 shares at December 30, 1967; 380,300 shares at December 31, 1966 (See note)	**21,624,434**	15,735,100
Stockholders' Equity	**$622,279,851**	$592,679,905
	$915,344,487	$884,517,966

(See Notes to Consolidated Financial Statements, pages 23 and 24.)

NATIONAL DAIRY PRODUCTS CORPORATION...AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	52 Weeks Ended Dec. 30, 1967	53 Weeks Ended Dec. 31, 1966
Income:		
Net sales	**$2,318,587,414**	$2,251,724,600
Other income	**7,014,020**	8,632,659
Total	**$2,325,601,434**	$2,260,357,259
Costs and expenses:		
Cost of products	**$1,773,106,625**	$1,716,132,601
Delivery, selling, and administrative expense	**405,563,513**	402,386,665
Interest on long-term debt	**3,484,520**	3,551,924
Miscellaneous charges (net)	**2,496,360**	2,809,987
Total	**$2,184,651,018**	$2,124,881,177
Income before Federal and foreign taxes	**$ 140,950,416**	$ 135,476,082
Provision for Federal and foreign taxes on income	**64,830,000**	62,015,000
Net income for the year	**$ 76,120,416**	$ 73,461,082
Net income per share of common stock	**$ 2.65**	$ 2.55

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	52 Weeks Ended Dec. 30, 1967	53 Weeks Ended Dec. 31, 1966
Balance at beginning of fiscal year	**$ 492,040,151**	$ 458,992,224
Net income for the year	**76,120,416**	73,461,082
	$ 568,160,567	$ 532,453,306
Dividends on common stock—$1.45 per share in 1967 ($1.40 in 1966)	**41,640,765**	40,413,155
Balance at end of fiscal year	**$ 526,519,802**	$ 492,040,151

(See Notes to Consolidated Financial Statements, pages 23 and 24.)

CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

Source of Funds:	**52 Weeks Ended Dec. 30, 1967**	**53 Weeks Ended Dec. 31, 1966**
Net income for the year	**$ 76,120,416**	$ 73,461,082
Non-cash charge—Depreciation	**39,980,080**	38,480,544
Sale of common stock under options	**1,009,629**	1,896,077
	$117,110,125	$113,837,703
Application of Funds:		
Dividends paid on common stock	**$ 41,640,765**	$ 40,413,155
Property, plant and equipment additions, net	**49,282,526**	41,961,386
Reduction of long-term debt, net	**2,587,318**	1,589,563
Treasury stock acquired, net	**5,889,334**	8,503,163
Other (sources) and applications, net	**(2,238,500)**	4,767,965
	$ 97,161,443	$ 97,235,232
Increase in Working Capital	**$ 19,948,682**	$ 16,602,471

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS . . . December 30, 1967

Treasury Stock

During 1967 the Company purchased 197,800 shares of its common stock for general corporate purposes, 30,631 shares of which were used in connection with an acquisition.

Intangibles

Intangibles represent the excess of the purchase prices paid over the net book values of the tangible assets of certain businesses acquired since 1955. The Company does not now intend to amortize items carried in this account.

Contingent Liabilities

Substantial amounts are involved in various legal proceedings in which the Company is a defendant. It is not feasible to predict or determine the outcome of these proceedings, the adjustments in operations which adverse decisions might require or the ultimate liabilities, if any, which might result, but it is believed that the outcome would not materially affect the Company's consolidated financial position or operations.

Employees' Stock Options

At December 30, 1967, 1,252 employees of the Company (including officers) held options, granted under the Company's Employees' Stock Option Plan as amended in 1958, and under the 1965 Stock Option Plan, for an aggregate of 577,844 shares, at prices ranging from $24.13 to $41.43 per share, with an aggregate purchase price of $20,048,485. At that date 199,980 shares remained available under the 1965 Plan for future grants. Options become exercisable in cumulative periodic installments and in 1967 options covering 115,552 shares became exercisable, having an aggregate purchase price of $4,224,287. During the year options covering 37,858 shares were exercised and the proceeds, $1,009,629, were credited to the common stock and capital surplus accounts.

Company Pension Plans

The Company and its subsidiaries have several pension plans, including joint industry and union plans, covering substantially all employees. Total pension costs approximated $12,156,000 in 1967 and $11,585,000 in 1966. It is the Company's general policy to provide and fund current service costs and interest on unfunded past service costs annually. During 1967, amortization of past service costs was discontinued, and actuarial assumptions and a cost method were changed for certain domestic plans; the effect of these changes on total pension costs was not material. At December 30, 1967, employees' vested benefits were fully funded. The stockholders at the 1968 annual meeting will be asked to approve changes in certain of the Company's plans which would result in increased costs in 1968 and subsequent years.

Capital Surplus

Capital surplus was increased by $914,984 during 1967 and $1,687,647 during 1966, representing the excess of consideration received over the par value of shares issued under the Employees' Stock Option Plans.

Long-Term Debt

All of the issues of debentures and debenture stock have sinking fund or prepayment requirements. The amounts shown below as outstanding at December 30, 1967, exclude maturities and sinking fund requirements included in current liabilities, and $15,102,000 of debentures held in treasury in excess of current sinking fund requirements.

National Dairy Products Corporation	**Dec. 30, 1967**	**Dec. 31, 1966**
$2\frac{3}{4}$% Debentures due 1970 . . .	$16,112,000	$16,112,000
3% Debentures due 1970	9,831,000	9,831,000
$3\frac{1}{8}$% Debentures due 1976 . . .	14,944,000	14,944,000
$4\frac{3}{8}$% Debentures due 1992 . . .	33,011,000	33,011,000
Renewable Bank Notes (Belgium)	3,986,703	3,986,703
English subsidiary		
Debenture Stock due 1975	6,000,000	7,280,000
Bank Loans due 1969	1,260,000	1,820,000
Australian subsidiary		
Mortgage Debenture Stock due 1968	—	747,318
	$85,144,703	$87,732,021

AUDITORS' REPORT

To the Board of Directors and Stockholders of National Dairy Products Corporation:

We have examined the consolidated balance sheets of National Dairy Products Corporation (a Delaware corporation) and Subsidiaries as of December 30, 1967 and December 31, 1966 and the related consolidated statements of income, retained earnings and source and application of funds for the fiscal years then ended. We have also examined the statements of financial position and income of International Subsidiaries other than Canadian. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of National Dairy Products Corporation and Subsidiaries as of December 30, 1967 and December 31, 1966, and the results of their operations and source and application of funds for the fiscal years then ended, and the accompanying financial statements of International Subsidiaries other than Canadian present fairly the financial position and results of operations of such subsidiaries, all in conformity with generally accepted accounting principles consistently applied during the periods.

New York, N. Y.
February 23, 1968.

Arthur Andersen & Co

INTERNATIONAL SUBSIDIARIES OTHER THAN CANADIAN

STATEMENTS OF INCOME

	52 Weeks Ended Dec. 30, 1967	53 Weeks Ended Dec. 31, 1966
Income:		
Net sales	$236,511,894	$229,505,359
Other income	718,642	885,544
Total	$237,230,536	$230,390,903
Costs and expenses:		
Cost of products	$182,360,758	$178,816,164
Delivery, selling, and administrative expense (1966 includes a non-recurring charge of $1,600,000)	37,269,364	38,069,236
Interest on long-term debt	586,368	582,581
Total	$220,216,490	$217,467,981
Income before taxes	$ 17,014,046	$ 12,922,922
Provision for taxes on income	6,363,992	5,199,113
Net income for the year	$ 10,650,054	$ 7,723,809

STATEMENTS OF FINANCIAL POSITION

	Dec. 30, 1967	Dec. 31, 1966
Current assets	$ 65,699,007	$ 61,908,892
Property, plant and equipment, less accumulated depreciation	43,540,302	41,352,393
Other assets	2,163,764	2,268,525
	$111,403,073	$105,529,810
Current liabilities	$ 40,711,585	$ 34,172,188
Long-term debt	7,260,000	9,847,318
Reserves	2,129,415	2,249,900
	$ 50,101,000	$ 46,269,406
Net tangible assets	$ 61,302,073	$ 59,260,404

The above accounts are included in the Consolidated Financial Statements.

TEN YEAR SUMMARY

(Dollar amounts in thousands, except per share figures)

INCOME AND DIVIDENDS:	**1967**	**1966**	**1965**
Net sales	**$2,318,587**	$2,251,725	$2,017,280
Income before Federal and foreign taxes on income	**140,950**	135,476	129,057
Net income after taxes	**76,120**	73,461	69,902
Dividends	**41,641**	40,413	37,664
Per share of common stock: ‡			
Net income after taxes	**$2.65**	$2.55	$2.41
Dividends	**$1.45**	$1.40	$1.30
FINANCIAL POSITION:			
Cash and marketable securities	**$ 84,701**	$ 69,466	$ 117,082
Notes and accounts receivable	**140,469**	134,830	121,815
Inventories	**310,831**	310,832	250,928
Total current assets	**536,001**	515,128	489,825
Total current liabilities	**190,449**	189,524	180,824
Working capital	**345,552**	325,604	309,001
Property, plant and equipment (net)	**343,650**	334,347	330,866
Total assets	**915,344**	884,518	852,652
Long-term debt	**85,145**	87,732	89,322
Stockholders' equity	**622,280**	592,680	566,239
Per share of common stock ‡	**$21.66**	$20.58	$19.56
STATISTICAL INFORMATION:			
Capital expenditures	**$ 51,600**	$ 42,481	$ 37,767
Depreciation charged during the year	**39,980**	38,481	38,222
Total taxes—income, property and other	**92,425**	89,072	82,636
Per share of common stock ‡	**$3.21**	$3.09	$2.85
Interest on long-term debt	**3,485**	3,552	3,483
Payroll	**309,905**	301,407	280,983
Average number of employees	**47,060**	46,525	45,157
Number of stockholders at year end	**72,352**	71,240	68,762

NOTE: ‡Per share figures for all years have been adjusted for the two-for-one stock split in 1966.

NATIONAL DAIRY PRODUCTS CORPORATION...AND SUBSIDIARIES

1964	1963	1962	1961	1960	1959	1958
$1,919,945	$1,838,971	$1,820,538	$1,790,834	$1,667,176	$1,605,725	$1,548,386
123,951	110,444	104,478	101,526	101,947	98,462	90,491
63,784	54,018	51,303	50,211	50,667	49,362	45,456
34,729	31,703	29,411	28,536	28,177	27,317	24,973
$2.20	$1.87	$1.78	$1.75	$1.79	$1.75	$1.63
$1.20	$1.10	$1.02	$1.00	$1.00	$ .97	$ .90
$ 113,846	$ 93,341	$ 89,551	$ 27,747	$ 43,297	$ 62,498	$ 61,936
112,070	105,340	97,155	95,180	87,998	78,710	76,456
241,754	244,738	238,713	262,197	224,587	194,213	181,584
467,670	443,419	425,419	385,124	355,882	335,421	319,976
171,055	161,021	156,883	170,667	146,638	140,992	131,456
296,615	282,398	268,536	214,457	209,244	194,429	188,520
332,136	329,440	326,603	317,799	298,103	290,242	276,815
824,629	796,721	774,267	726,173	670,343	642,082	610,476
95,638	109,071	116,599	81,808	84,178	87,886	91,673
538,638	507,107	482,467	458,455	428,026	403,855	375,013
$18.58	$17.56	$16.78	$16.02	$15.16	$14.36	$13.49
$ 45,450	$ 42,667	$ 49,235	$ 51,327	$ 44,425	$ 48,568	$ 49,950
37,897	36,955	35,946	34,378	32,771	31,788	30,636
83,299	79,798	75,542	72,087	71,490	66,938	61,502
$2.87	$2.76	$2.63	$2.52	$2.53	$2.38	$2.21
3,759	4,129	3,711	2,598	2,737	2,803	2,943
274,546	271,908	273,263	272,159	262,013	256,331	255,602
45,172	46,432	47,596	48,822	47,943	48,809	50,482
69,073	68,682	69,727	69,993	69,940	69,708	68,681

PRINCIPAL DIVISIONS

Kraft Foods . . . operates modern food processing plants and distributing centers at many locations in the United States and Canada, geographically located to give efficient service to customers in all trade channels throughout both countries. Kraft Foods also manages the major part of our international food business, which has facilities in Great Britain, West Germany, Belgium, Spain, Australia, New Zealand, Venezuela, Mexico, the Philippines and other countries, producing and distributing a great variety of food products. United States, Canadian and overseas operations export to markets in other countries. Long famous for cheese and salad products, Kraft Foods has steadily diversified its product lines and today markets a wide range of food products which are to be found in all types of food outlets. This Division does an extensive business with the food-service industry, including restaurants, schools, institutions, in-plant cafeterias and similar customers and also produces a number of products used by other manufacturers as ingredients in their products.

Sealtest Foods . . . produces a full line of fluid milk, cream and milk specialties. Sealtest Foods' ice cream and other frozen specialties and cottage cheese in many varieties are produced and distributed in the United States and Canada. This Division also distributes orange juice, fruit beverages and other food products. Sealtest products reach homes, food stores, restaurants and other institutional customers in markets from the Atlantic Coast to the Rocky Mountains and in Puerto Rico. Dominion Dairies in Canada processes and sells products under the Sealtest and other brands in the Provinces of Ontario and Quebec. Through its Sheffield Chemical operation, Sealtest Foods also produces milk proteins, chemical intermediates and various ingredient products. BREYER'S . . . the long-established and ever popular Breyers brand of ice cream products is manufactured and distributed from Connecticut through the mid-Atlantic states to Virginia in a wide variety of retail outlets.

Breakstone Foods . . . does an extensive business in cottage cheese, butter, sour cream, cream cheese and cultured milk products, under the Breakstone and Temp-Tee brands. From its plants and branches, Breakstone Foods' products are delivered by refrigerated transport to major markets along the eastern seaboard from Maine to Puerto Rico.

HumKo Products . . . makes a variety of edible oils and shortenings for the food industry and for consumer markets, operating large modern refineries in Memphis, Tenn., Champaign, Ill., and Los Angeles, Calif. HumKo also produces and markets a wide range of high-quality industrial fatty acids and chemicals which have many applications in other industries. Its products are generally distributed throughout the United States.

Metro Glass . . . manufactures glass containers for use in the food, beverage, drug, chemical, cosmetics, household products, and other trades. Its principal plants are located in the heavily industrialized areas around New York City, Pittsburgh, and Chicago.

Sugar Creek Foods . . . is a leading producer of quality butter, churned and packaged at plants in mid-Western dairy centers and sold under Sugar Creek, Sealtest, and other brands. It also produces ice cream mix and flavor bases for soft drinks and syrups.

Research and Development . . . the Research Center, located at Glenview, Ill., conducts the extensive research programs of National Dairy. This large, modern facility, staffed and equipped for basic and applied research, works with the operating Divisions of the Company in the development of new and improved products and processes, technological studies and important long range projects.

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SULLIVAN & CROMWELL

TRANSFER AGENT

MANUFACTURERS HANOVER
TRUST COMPANY

REGISTRAR

THE CHASE MANHATTAN BANK, N.A.

AUDITORS

ARTHUR ANDERSEN & CO.

NATIONAL DAIRY PRODUCTS CORPORATION
260 MADISON AVE., NEW YORK, N.Y. 10016

SPICE CABINET
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CLOVES
CINNAMON